

DO YOU NEED TO BUY THAT PIECE OF EQUIPMENT? ¹

by George P. Tyler

I will cover some of the factors that should be taken into account when considering the purchase of a major piece of equipment. These considerations should not involve just the original purchase price. Many items come into play during the entire life span of the equipment. Before you invest in new equipment, imagine the expenditures involved during the time you own the equipment, and even how you would dispose of it at the end.

I am not qualified to discuss the various tax advantages that may be available to you. Obviously, if you have the choice of when to purchase, and this choice can be affected by the availability of an investment tax credit, certainly this should color your buying decision. The full tax ramifications of a major purchase should be discussed with your accountant. Tax breaks and tax costs are going to be part of your cost:value analysis. I will discuss the type of equipment we buy for the business to generate income and, hopefully, profit, rather than overhead nonincome producing items such as desks for the office. Not all of the equipment we must purchase can generate profit directly. In some areas we are forced to purchase some equipment just to get into the game. Every piece of equipment that you take to the job, however, from the largest to the smallest, should have been priced and sold to your customer with a profit in mind.

The key to the purchase of equipment is the income and profit it can generate for you, and for how long. In value analysis, one of the questions to ask before spending money on capital equipment is, would I get better return on this investment if I put it to work in an alternative medium?

Sometimes you are forced to purchase equipment simply to maintain your competitive position in your trade area. The competitive relationship is a real one and must be considered in your

cost:value analysis. Avoid impulse buying! Impulse buying is the lowest and least intelligent level of purchasing.

The buyer should consider his supplier as part of his team, and the relationship should be cultivated as actively from the buyer's point of view as from the seller's. It is far better to spend \$40,000 in one place than \$10,000 in four places for similar goods. In this manner, the supplier views your business as that of a valued customer, and means it, and when this happens you generally get preferential treatment in service and parts, and your company will get the benefit of technical advice, and help, even if a future purchase is not imminent. It is simply good business for customer and supplier to develop a strong relationship, particularly where major, long-lived equipment is concerned, because you are going to need that supplier as time goes by for parts, service, and advice.

Don't always shop for the lowest price. Just as it is wise to develop a strong relationship with your supplier, it is also necessary that you permit him a reasonable profit. You need him to be successful, if he is not, he won't be there to help you when you need it. Nothing is quite so frustrating as buying a "bargain", only to discover that the seller of the product has gone out of business or vanished into the night.

Government intervention in business has become all pervasive lately. They have regulated us without providing reasonable alternatives and made it increasingly difficult for small businesses to function. The technical and legal aspects of equipment ownership available from an informed supplier may be the difference between acting wisely or acting foolishly. Good suppliers belong to trade organizations that have sources of information not readily available to customers. So, choose your supplier carefully, consider him a part of your team, and treat each other with

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respect. In the long run you will both benefit.

One consideration that many businesses must make is whether to buy new or used equipment. Equipment is not normally traded every three years, so why is it for sale? Is it old and worn out, does it require extensive maintenance, how long will it last, and does it meet current Federal safety standards? Generally, the purchase of used equipment is justified in only a few cases. In the long run, its cost may be greater than other alternatives. Some of the more worthy considerations for purchase of used equipment might be: a short-term need that doesn't warrant the cost of new, a forced sale of relatively new equipment at distressed prices, the entry into a new field where you want to gain experience without the risk of the cost of new equipment, or are required to start a job and don't have the necessary tools, and can't wait for a relatively long delivery period.

Before purchase of new equipment, you should apply a cost:value analysis to the various available models. This is done in a series of eliminations and trade-offs such as: what are the features of each possible choice? Listen to the salesman, study the literature, and make sure you understand the features. Decide if there is one outstanding asset of one model that is of great value to you. The features should then be weighed against dollar criteria such as return on investment, lower maintenance costs, increased efficiency, and longer life.

Having decided upon the desirable features, examine the company manufacturing the equipment. Does it back its machinery with parts and technological changes? Established manufacturers often give better and more dependable service and a better resale price at trade-in time. What brands are the competitors in your area buying? It is generally unwise to see what brand selection is being done in other areas because conditions and methods vary widely.

One sensible method of calculating cost is simply to list them. Some will be actual and others will be estimates, but when you get to the bottom line, you should be reasonably accurate. Among costs to be listed are purchase price, maintenance, down time, consumables (fuel), financing, aging, taxes, insurance, etc. From this you deduct trade-in value, depreciation allowances, etc.

Then estimate what you would hope to earn

from the equipment over its life expectancy. The difference of earnings over cost, will give you your estimated return on your investment. If this return isn't in line with what you anticipate, or what you could earn over a similar period with a different investment with the same risk ratio, then perhaps you should not make the purchase.

Most equipment manuals provide a recommended preventative maintenance schedule. Follow them. They will prolong the life of your equipment. If your supplier offers a periodic inspection-service program, purchase it if it's fairly priced.

Demand that your help operate the equipment with proper care. If they don't know how, teach them. Good looking, clean, well cared for and well operated equipment not only enhances your public image, it will save you dollars. Proper training in the care of equipment, followed by a program that fosters proper attitude among the personnel, through incentives or other means, are well worth the time and effort it takes to implement them.

There is a time when the productive life of equipment is used up either due to obsolescence, changes in the art, or simply old age. This occurs when the cost to maintain it is greater than the cost to replace it. In the original consideration of the cost of the equipment, you projected its life expectancy. When that time arrives, dispose of it either by trade or sale. One large leasing firm that I am aware of working in the utility industry, has determined that the best mix for bucket trucks is to overhaul the lift every three and one-half years, replace the chassis every six to seven years, and dump the package in the twelfth year. This illustrates that you should plan for disposal from the beginning.

The method you choose for disposal is becoming more important. Liability has become so severe that I am beginning to believe that the only protection we have is to destroy the used equipment rather than to sell it. Your greatest protection is to trade it in to the supplier. If an accident occurs on your old equipment you will have the protection of a buyer who is supposed to be more knowledgeable than you.

Study these ideas. It is good to consider another's point of view.

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